

**CITY OF PRESTON
PRESTON, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2015**

**CITY OF PRESTON
PRESTON, IOWA**

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**CITY OF PRESTON
PRESTON, IOWA**

OFFICIALS

Name	Title	Term Expires
Chad Gruver	Mayor	January 2016
Richard Rossmann	Mayor Pro Tem/Council Member	January 2016
Ken Larson	Council Member	January 2016
Tom Budde	Council Member	January 2018
Pansy Oldag	Council Member	January 2018
Jason Thomson	Council Member	January 2018
Brenda Tebbe	City Clerk/Treasurer	Indefinite
Melissa Burken-Mommsen	City Attorney	Indefinite

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P.O. Box 743
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

www.oconnorbrooks.com

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Preston as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Discretely Presented Component Unit

The financial statements referred to above do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data of the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include financial data for its component unit. The City has not issued such reporting entity financial statements. The assets, liabilities, net position, revenues, and expenses of the legally separate component unit is unknown, thus the amount by which this departure would affect the financial statements taken as a whole is not reasonably determinable.

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of significance of the matter discussed in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to previously do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the discretely presented component unit of the City of Preston, as of June 30, 2015, or the changes in cash basis financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Preston as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As described in Note 4 to the financial statements, the City of Preston adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Preston's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2014 (none of which are presented herein) and

expressed unqualified/unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements with the exception of the seven years ended June 30, 2014. For the seven years ended June 30, 2014, we expressed an unqualified/unmodified opinion on the financial statements of the various opinion units of the primary government and we expressed an adverse opinion on the discretely presented component unit due to the omission of the financial data for the City's legally separate component unit. The supplementary information included in Schedules 1-6 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 5 through 10 and 30 through 36 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.

Dubuque, Iowa

February 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Preston provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 30.6% or \$176,867 from fiscal 2014 to fiscal 2015. The receipts included \$254,925 in property tax, \$83,891 in local option tax, \$105,230 in road use tax funds, and \$168,000 of debt proceeds.
- Disbursements increased 4.4% or \$117,569 in fiscal 2015 from fiscal 2014. Public safety, public works, and debt service disbursements increased \$184,385, \$71,286 and \$49,293, respectively, while gas and garbage disbursements decreased \$62,697 and \$126,401, respectively.
- The City's total cash basis net position increased 12.8% or \$173,960 from June 30, 2014 to June 30, 2015. Of this amount, the net position of the governmental activities decreased \$21,877. The net position of the business type activities increased \$195,837.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds, nonmajor proprietary fund, internal service funds, and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax, state grants, and payments in lieu of taxes finance most of these activities.
- Business type activities include water, sewer, electric, gas, garbage, and customer deposits. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of the funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund; 2) the Special Revenue Funds, such as Road Use Tax, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains six Enterprise Funds to provide separate information for the water, sewer, electric, gas, garbage, and customer deposits funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$449,844 to \$427,967. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

	Year Ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service	\$ 47,622	\$ 48,889
Operating grants and contributions	170,283	171,806
Capital grants and contributions	6,848	---
General receipts:		
Property tax	254,925	249,217
Other city tax	88,634	84,594
Unrestricted investment earnings	3,268	13,262
Other general receipts	14,669	9,614
Debt proceeds	168,000	---
Total receipts	\$ 754,249	\$ 577,382
Disbursements:		
Public safety	\$ 401,165	\$ 216,780
Public works	191,851	120,565
Culture and recreation	107,630	99,130
Community and economic development	16,235	12,399
General government	80,583	82,822
Debt service	78,662	29,369
Total disbursements	\$ 876,126	\$ 561,065
Change in cash basis net position before transfers	\$ (121,877)	\$ 16,317
Transfers, net	100,000	100,000
Change in cash basis net position	\$ (21,877)	\$ 116,317
Cash basis net position beginning of year	449,844	333,527
Cash basis net position end of year	\$ 427,967	\$ 449,844

Total receipts for the City's governmental activities increased by 30.6% or \$176,867. The total cost of all programs and services increased \$315,061 or 56.2%. The increase in receipts is due loan proceeds received in fiscal year 2015 for the purchase of a fire truck and to advance refund remaining debt for a prior fire truck purchase. The cost of programs and services increased due to the purchase of a police care, fire truck, and a snow plow as well as the amount paid to refund a general obligation note.

The cost of all governmental activities this year was \$876,126 compared to \$561,065 last year. As shown in the Cash Basis Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was \$651,373 because some of the cost was paid by those directly benefited from the programs \$47,622 or by other governments and organizations that subsidized certain programs with grants and contributions \$177,131. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for services increased from \$220,695 in fiscal year 2014 to \$224,753 in fiscal year 2015. The City paid for the remaining "public benefit" portion of governmental activities with \$529,496 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Position of Business Type Activities

	Year Ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 209,776	\$ 207,123
Electric	1,088,717	1,143,415
Gas	491,056	593,714
Sewer	195,775	191,596
Garbage	140,435	129,564
Customer deposits	7,581	6,662
General receipts:		
Unrestricted interest on investments	4,184	4,904
Miscellaneous	53,423	27,254
Sale of assets	---	7,500
Total receipts	<u>\$2,190,947</u>	<u>\$2,311,732</u>
Disbursements:		
Water	\$ 173,828	\$ 175,708
Electric	950,085	990,796
Gas	479,327	542,024
Sewer	151,999	122,765
Garbage	132,832	259,233
Customer deposits	7,039	2,076
Total disbursements	<u>\$1,895,110</u>	<u>\$2,092,602</u>
Change in cash basis net positions before transfers	\$ 295,837	\$ 219,130
Transfer, net	(100,000)	(100,000)
Change in cash basis net position	<u>\$ 195,837</u>	<u>\$ 119,130</u>
Cash basis net position beginning of year	911,355	792,225
Cash basis net position end of year	<u><u>1,107,192</u></u>	<u><u>\$ 911,355</u></u>

Total business type activities disbursements for the fiscal year were \$1,895,110 compared to \$2,092,602 last year. The decrease in gas disbursements was due to weather and the price of natural gas. The increase in sewer disbursements was due to sewer video of the lines. The decrease in garbage disbursements was due to the purchase of a garbage truck in fiscal year 2014.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Preston completed the year, its governmental funds reported a combined fund balance of \$424,409, a decrease of \$21,877 from last year's total. The following are the reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased from \$110,652 to \$134,210. The change of \$23,558 is due to a decrease in Public Works expenses. In fiscal year 2014, a street lighting project was completed. Additional capital items were purchased in fiscal year 2015 including a fire truck and police car; however, debt proceeds covered the cost of the fire truck while the cost of the police car was less than the lighting project.
- The Road Use Tax Fund cash balance decreased from \$410,438 to \$383,242. The decrease is due to the seal coating of City streets and the purchase of a snow plow truck.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$41,153 as the City is accumulating funds for future repairs and improvements.
- The Electric Fund cash balance increased \$101,713 due to a decrease in expenses.
- The Gas Fund cash balance decreased \$3,371 as a result of equipment and repair disbursements.
- The Sewer Fund cash balance increased \$48,628 as the City is accumulating funds for future repairs and improvements.

BUDGETARY HIGHLIGHTS

The City amended its budget only once during the fiscal year. It was amended and approved on May 18, 2015 to provide for additional spending that wasn't budgeted such as the purchase of a new police car and related equipment, snow plow truck, and library equipment. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$152,622 more than budgeted. This was primarily due an increase in receipts in the gas fund. Gas rates in fiscal year 2015 did not decrease as much as anticipated.

The City exceeded the amounts budgeted in the public safety, public works, community and economic development, general government, and debt service functions for the year ended June 30, 2015 due to unanticipated costs in those departments.

DEBT ADMINISTRATION

At June 30, 2015, the City had \$931,823 in bonds and other long-term debt, compared to \$931,823 last year, as shown below.

Outstanding Debt at Year End		
	June 30,	
	2015	2014
General obligation notes	\$ 190,876	97,823
Revenue note	683,000	759,000
Other obligations	50,000	75,000
Total	\$ 923,876	\$ 931,823

Debt increased as a result of additional borrowing in fiscal year 2015 to refund a general obligation note and to purchase a fire truck. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$190,876 is significantly below its constitutional debt limit of \$2.4 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2016. Amount available for appropriation in the operating budget will be \$3,173,717, an increase of 16% from the final 2015 budget. Intergovernmental receipts and charges for services are expected to increase approximately \$121,000 and \$391,000, respectively.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$57,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brenda Tebbe, City Clerk/Treasurer, P.O. Box 37, Preston, Iowa 52069.

**BASIC
FINANCIAL
STATEMENTS**

EXHIBIT "A"

**CITY OF PRESTON
PRESTON, IOWA**

**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities
Functions/Programs:						
Governmental Activities:						
Public safety	\$ 401,165	\$ 38,771	\$ 45,881	\$ ---	\$ (316,513)	\$ ---
Public works	191,851	241	105,230	---	(86,380)	---
Culture and recreation	107,630	2,570	19,172	6,848	(79,040)	---
Community and economic development	16,235	---	---	---	(16,235)	---
General government	80,583	6,040	---	---	(74,543)	---
Debt service	78,662	---	---	---	(78,662)	---
Total Governmental Activities	\$ 876,126	\$ 47,622	\$ 170,283	\$ 6,848	\$ (651,373)	\$ ---
Business Type Activities:						
Water	\$ 173,828	\$ 209,776	\$ ---	\$ ---	\$ ---	\$ 35,948
Electric	950,085	1,088,717	---	---	---	138,632
Gas	479,327	491,056	---	---	---	11,729
Sewer	151,999	195,775	---	---	---	43,776
Garbage	132,832	140,435	---	---	---	7,603
Customer deposits	7,039	7,581	---	---	---	542
Total Business Type Activities	\$ 1,895,110	\$ 2,133,340	\$ ---	\$ ---	\$ ---	\$ 238,230
Total	\$ 2,771,236	\$ 2,180,962	\$ 170,283	\$ 6,848	\$ (651,373)	\$ 238,230
						\$ (413,143)

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
General Receipts and Transfers:						
Property tax levied for general purposes	\$ 254,925			\$ 254,925	\$ ---	\$ 254,925
Other city tax	88,634			88,634	---	88,634
Unrestricted interest on investments	3,268			3,268	4,184	7,452
Miscellaneous	12,508			12,508	28,423	40,931
Note proceeds	168,000			168,000	---	168,000
Interfund debt repayment	---			---	25,000	25,000
Sale of assets	2,161			2,161	---	2,161
Transfers	100,000			100,000	(100,000)	---
Total General Receipts and Transfers	\$ 629,496			\$ (42,393)		\$ 587,103
Change in Cash Basis Net Position	\$ (21,877)			\$ 195,837		\$ 173,960
Cash Basis Net Position Beginning of Year	449,844				911,355	1,361,199
Cash Basis Net Position End of Year	\$ 427,967			\$ 1,107,192		\$ 1,535,159
Cash Basis Net Position:						
Restricted:						
Expendable:						
Debt service	\$ ---			\$ 21,797	\$ 21,797	\$ 21,797
Library	71,252			71,252	---	71,252
Streets	383,242			383,242	---	383,242
Emergency levy	7,332			7,332	---	7,332
Unrestricted (deficit)	(33,859)			(33,859)	1,085,395	1,051,536
Total Cash Basis Net Position	\$ 427,967			\$ 1,107,192		\$ 1,535,159

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Special Revenue			
	General	Road Use Tax	Nonmajor	Total
Receipts:				
Property tax	\$ 254,925	\$ ---	\$ ---	\$ 254,925
Other city tax	88,634	---	---	88,634
Licenses and permits	2,990	---	---	2,990
Use of money and property	6,508	---	2,810	9,318
Intergovernmental	65,053	105,230	---	170,283
Charges for services	38,241	---	---	38,241
Special assessments	112	---	129	241
Miscellaneous	19,268	---	188	19,456
Total Receipts	\$ 475,731	\$ 105,230	\$ 3,127	\$ 584,088
Disbursements:				
Operating				
Public safety	\$ 401,165	\$ ---	\$ ---	\$ 401,165
Public works	59,425	132,426	---	191,851
Culture and recreation	106,417	---	1,213	107,630
Community and economic development	16,235	---	---	16,235
General government	80,583	---	---	80,583
Debt service	---	---	78,662	78,662
Total Disbursements	\$ 663,825	\$ 132,426	\$ 79,875	\$ 876,126
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (188,094)	\$ (27,196)	\$ (76,748)	\$ (292,038)
Other Financing Sources (Uses):				
Sale of assets	\$ 2,161	\$ ---	\$ ---	\$ 2,161
Debt proceeds	109,491	---	58,509	168,000
Transfers in	100,000	---	---	100,000
Total Other Financing Sources	\$ 211,652	\$ ---	\$ 58,509	\$ 270,161
Change in Cash Balances	\$ 23,558	\$ (27,196)	\$ (18,239)	\$ (21,877)
Cash Balances Beginning of Year	110,652	410,438	(74,804)	446,286
Cash Balances End of Year	\$ 134,210	\$ 383,242	\$ (93,043)	\$ 424,409
Cash Basis Fund Balances:				
Restricted for:				
Library	\$ ---	\$ ---	\$ 71,252	\$ 71,252
Streets	---	383,242	---	383,242
Emergency levy	7,332	---	---	7,332
Assigned for:				
Library	14,467	---	---	14,467
Police capital	466	---	---	466
Unassigned	111,945	---	(164,295)	(52,350)
Total Cash Basis Fund Balances	\$ 134,210	\$ 383,242	\$ (93,043)	\$ 424,409

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS, AND CHANGES IN CASH BALANCES TO
THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

Total governmental funds cash balances	\$ 424,409
---	------------

Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. A portion of the cash balances the Internal Service Funds are included in governmental activities in the Cash Basis Statement of Activities and Net Position.

3,558

Cash basis net position of governmental activities	\$ 427,967
---	------------

Change in cash balances	\$ (21,877)
--------------------------------	-------------

Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. A portion of the change in the cash balances of the Internal Service Funds is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

Change in cash balance net position of governmental activities	\$ (21,877)
---	-------------

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Enterprise					Internal Service Funds
	Water	Electric	Gas	Sewer	Nonmajor	Total
Operating Receipts:						
Charges for services	\$ 209,776	\$ 1,088,717	\$ 491,056	\$ 195,775	\$ 148,016	\$ 2,133,340
Miscellaneous	---	4,676	---	---	---	4,676
Total Operating Receipts	\$ 209,776	\$ 1,093,393	\$ 491,056	\$ 195,775	\$ 148,016	\$ 2,138,016
Operating Disbursements:						
Salaries and wages	\$ 38,869	\$ 62,919	\$ 41,829	\$ 33,842	\$ 35,659	\$ 213,118
Employee benefits and costs	17,620	28,334	25,597	16,368	30,020	117,939
Staff development	868	181	4,219	591	---	5,859
Repairs, maintenance, and utilities	26,696	23,919	3,954	26,790	10,389	91,748
Contractual services	23,387	698,706	333,318	9,675	54,471	1,119,557
Commodities	15,349	47,116	27,162	21,065	3,051	113,743
Capital outlay	4,492	31,868	42,310	14,542	5,343	98,555
Total Operating Disbursements	\$ 127,281	\$ 893,043	\$ 478,389	\$ 122,873	\$ 138,933	\$ 1,760,519
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 82,495	\$ 200,350	\$ 12,667	\$ 72,902	\$ 9,083	\$ 377,497
Non-Operating Receipts (Disbursements)						
Interest on investments	\$ 280	\$ 251	\$ 3,478	\$ 156	\$ 19	\$ 4,184
Miscellaneous	3,985	7,216	5,484	3,758	3,304	23,747
Repayment of interfund loan	---	---	25,000	---	---	25,000
Debt service	(45,607)	(56,104)	---	(28,188)	---	(129,899)
Net Non-Operating Receipts (Disbursements)	\$ (41,342)	\$ (48,637)	\$ 33,962	\$ (24,274)	\$ 3,323	\$ (76,968)
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 41,153	\$ 151,713	\$ 46,629	\$ 48,628	\$ 12,406	\$ 300,529
						\$ (4,692)

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Enterprise					Internal Service Funds
	Water	Electric	Gas	Sewer	Nonmajor	Total
Operating Financing Sources (Uses):						
Transfers out	\$ ---	\$ (50,000)	\$ (50,000)	\$ ---	\$ ---	\$ (100,000)
Changes in Cash Balances	\$ 41,153	\$ 101,713	\$ (3,371)	\$ 48,628	\$ 12,406	\$ 200,529
Cash Balances Beginning of Year	251,367	190,717	360,030	111,701	(6,103)	907,712
Cash Balances End of Year	\$ 292,520	\$ 292,430	\$ 356,659	\$ 160,329	\$ 6,303	\$ 1,108,241
Cash Basis Fund Balances:						
Restricted for Debt Service	\$ 21,797	\$ ---	\$ ---	\$ ---	\$ ---	\$ 21,797
Unrestricted (deficit)	270,723	292,430	356,659	160,329	6,303	1,086,444
Total Cash Basis Fund Balances	\$ 292,520	\$ 292,430	\$ 356,659	\$ 160,329	\$ 6,303	\$ 1,108,241
						\$ 2,506

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS, AND CHANGES IN CASH BALANCES
TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

Total enterprise funds cash balances	\$ 1,108,241
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*Amounts reported for business type activities in the Cash Basis
Statement of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. A portion of the cash balances of the Internal Service Funds are included in business type activities in the Cash Basis Statement of Net Position.

(1,049)

Cash basis net position of business type activities	<div style="border-top: 1px dashed black; border-bottom: 3px double black; display: inline-block; padding: 0 10px;">\$ 1,107,192</div>
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Change in cash balances	\$ 200,529
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*Amounts reported for business type activities in the Cash Basis Statement of
Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. A portion of the change in the cash balance of the Internal Service Funds is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(4,692)

Change in cash basis net position of business type activities	<div style="border-top: 1px dashed black; border-bottom: 3px double black; display: inline-block; padding: 0 10px;">\$ 195,837</div>
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**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 - Summary of Significant Accounting Policies:

The City of Preston is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1890 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides, water, sewer, electric, gas, and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Preston has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has one component unit which meets the Governmental Accounting Standards Board criteria, the Preston Volunteer Fire Department. This component unit has not been included in the City's financial statements.

Jointly Governed Organizations - The City participates in one jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board: Jackson County Sanitation Disposal Agency.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue, Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric system.

The Enterprise, Gas Fund accounts for the operation and maintenance of the City's gas system.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Governmental Cash Basis Fund Balances

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, general government, and debt service functions.

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage City.

At June 30, 2015, the City had the following investments:

Type	Fair Value	Maturity
-----	-----	-----
Community Foundation of Greater Dubuque	\$ 71,252	N/A
	=====	

Credit Risk - The City's investment in the Community Foundation of Greater Dubuque is unrated.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 2 - Cash and Pooled Investments: (Continued)

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Note 3 - Bonds and Notes Payable:

Annual debt service requirements to maturity for the City's indebtedness are as follows:

Year Ending June 30,	General Obligation Note		General Obligation Note		Revenue Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 4,532	\$ ---	\$ 13,000	\$ 4,262	\$ 40,000	\$ 14,805
2017	4,532	---	13,500	3,905	40,000	13,545
2018	4,532	---	13,500	3,534	40,000	12,285
2019	4,532	---	14,000	3,162	40,000	11,025
2020	4,532	---	14,000	2,778	40,000	9,765
2021-2025	13,216	---	57,000	8,250	200,000	29,925
2026-2029	---	---	30,000	2,117	80,000	3,150
Total	<u>\$ 35,876</u>	<u>\$ ---</u>	<u>\$ 155,000</u>	<u>\$ 28,008</u>	<u>\$ 480,000</u>	<u>\$ 94,500</u>

Year Ending June 30	Revenue Note		Other Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 37,000	\$ 8,120	\$ 25,000	\$ 2,138	\$ 119,532	\$ 29,325
2017	39,000	6,640	25,000	1,075	122,032	25,165
2018	41,000	5,080	---	---	99,032	20,899
2019	42,000	3,440	---	---	100,532	17,627
2020	44,000	1,760	---	---	102,532	14,303
2021-2025	---	---	---	---	270,216	38,175
2026-2029	---	---	---	---	110,000	5,267
Total	<u>\$ 203,000</u>	<u>\$ 25,040</u>	<u>\$ 50,000</u>	<u>\$ 3,213</u>	<u>\$ 923,876</u>	<u>\$ 150,761</u>

On October 7, 2014, the City entered into a loan agreement and provided for the issuance of \$168,000 in general obligation fire truck acquisition and refunding notes to redeem \$57,793 of 2008 Series general obligation notes with an interest rate of 4.30% and provide approximately \$110,000 for a fire truck. The City refunded the 2008 general obligation notes to change its debt service requirement from approximately \$67,000 over 7 years to approximately \$199,000 over 15 years (approximately \$70,000 is related to the refunding of the old notes), resulting in an economic gain (difference between the present value of the old and new debt) of approximately \$1,200.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 3 - Bonds and Notes Payable: (Continued)

Revenue Notes - The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$375,000 in water revenue notes issued in October 2010. Proceeds from the notes provided financing for improvements to the water system. The notes are payable solely from water customer net receipts and are payable through 2020. Annual principal and interest payments on the notes are expected to require less than 56 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$228,040. For the current year, principal and interest paid and total customer net receipts were \$45,607 and \$82,495, respectively.

The resolution providing for the issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the Water Fund, and the noteholders hold a lien on the future earnings of the fund.
- (b) Establish a Sinking Fund and make a monthly cash transfer equal to 1/6 of the installment of interest coming due on the next interest payment date plus 1/12 of the installment of principal coming due on the notes on the next succeeding principal payment date.

The City did comply with all of the provisions of the water notes during the year ended June 30, 2015.

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$600,000 in electric revenue notes issued in June 2012. Proceeds from the notes provided financing for improvements to the electric system. The notes are payable solely from electric customer net receipts and are payable through 2027. Annual principal and interest payments on the notes are expected to require less than 28 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$574,500. For the current year, principal and interest paid and total customer net receipts were \$56,104 and \$200,350 respectively.

Note 4 - Pension and Retirement Benefits:

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 - Pension and Retirement Benefits: (Continued)

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member received benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 - Pension and Retirement Benefits: (Continued)

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protective occupation members contributed 6.76 percent and the City contributed 10.14 percent for a total rate of 16.80 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$36,396.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions

– At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$175,499. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City proportion was 0.004425 percent, which was a decrease of .000304 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City's collective pension expense, collective deferred outflows and collective deferred inflows totaled \$16,392, \$12,428, and \$0, respectively.

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 - Pension and Retirement Benefits: (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 - Pension and Retirement Benefits: (Continued)

Sensitivity of the City's Proportional Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
	-----	-----	-----
City's proportionate share of the net pension liability	\$ 389,200	\$ 175,499	\$ (4,829)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Note 5 - Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 8 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$492 for single coverage and \$1,273 for family coverage. For the year ended June 30, 2015, the City contributed \$103,431 and plan members eligible for benefits contributed \$5,063 to the plan.

Note 6 - 28E Agreement:

On June 10, 2013, the City entered into a 28E Agreement with the City of Miles to provide police services to the City of Miles.

On August 1, 2013, the City entered into a 28E Agreement with the City of Spragueville to provide police services to the City of Spragueville.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 7 - Compensated Absences:

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2015, primarily relating to the General Fund, is \$9,767. The liability has been computed based on rates of pay as of June 30, 2015.

Note 8 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
-----	-----	-----
General	Enterprise:	
	Electric	\$ 50,000
	Gas	50,000

		\$100,000
		=====

Transfers are used to move receipts from user fee generated funds to the general fund for certain administrative and other costs in the general fund.

Note 9 - Risk Management:

The City is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10 - Deficit Fund Balances:

The Debt Service and Garbage Funds had deficit fund balances of \$164,295 and \$14,238, respectively, at June 30, 2015 as a result of disbursements in excess of receipts. The deficits will be eliminated by future receipts and transfers.

The Internal Service, Shed Reserve Fund had a deficit balance of \$3,016. The deficit is the result of disbursements in excess of receipts. The deficit will be eliminated by future transfers from other funds.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 11 - Commitments:

In fiscal year 2015, the City entered into contracts totaling \$533,667 for a water main and street improvement project. At June 30, 2015, \$34,583 had been paid under these contracts.

Note 12 - Subsequent Events:

In November 2015, the City approved the establishment of the Preston Urban Renewal Area.

In December 2015, the City approved a contract to purchase land at a price of \$245,000 payable on an installment contract at 0% interest and semi-annual installments of \$12,250.

The City's management has evaluated subsequent events and transactions for potential financial statement recognition and disclosure through February 10, 2016, the date the financial statements were available to be issued.

**OTHER
INFORMATION**

**CITY OF PRESTON
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2015**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 254,925	\$ ---	\$ ---	\$ 254,925	\$ 249,977	\$ 249,977	\$ 4,948
Other city tax	88,634	---	---	88,634	85,166	85,166	3,468
Licenses and permits	2,990	---	---	2,990	2,775	2,775	215
Use of money and property	9,318	4,184	---	13,502	11,000	11,000	2,502
Intergovernmental	170,283	---	---	170,283	189,645	189,645	(19,362)
Charges for services	38,241	2,133,340	---	2,171,581	1,958,700	1,958,700	212,881
Special assessments	241	---	---	241	150	150	91
Miscellaneous	19,456	53,423	---	72,879	125,000	125,000	(52,121)
Total Receipts	\$ 584,088	\$ 2,190,947	\$ ---	\$ 2,775,035	\$ 2,622,413	\$ 2,622,413	\$ 152,622
Disbursements:							
Public safety	\$ 401,165	\$ ---	\$ ---	\$ 401,165	\$ 226,900	\$ 387,900	\$ (13,265)
Public works	191,851	---	---	191,851	140,050	190,050	(1,801)
Culture and recreation	107,630	---	---	107,630	92,992	115,992	8,362
Community and economic development	16,235	---	---	16,235	12,000	12,000	(4,235)
General government	80,583	---	---	80,583	68,095	68,095	(12,488)
Debt service	78,662	---	---	78,662	11,000	11,000	(67,662)
Business type activities	---	1,895,222	4,804	1,890,418	1,961,375	2,111,375	220,957
Total Disbursements	\$ 876,126	\$ 1,895,222	\$ 4,804	\$ 2,766,544	\$ 2,512,412	\$ 2,896,412	\$ 129,868

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2015**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (292,038)	\$ 295,725	\$ (4,804)	\$ 8,491	\$ 110,001	\$ (273,999)	\$ 282,490
Other Financing Sources (Uses), Net	270,161	(100,000)	---	170,161	---	384,000	(213,839)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ (21,877)	\$ 195,725	\$ (4,804)	\$ 178,652	\$ 110,001	\$ 110,001	\$ 68,651
Balances, Beginning of Year	446,286	914,910	7,198	1,353,998	1,245,762	1,245,762	108,236
Balances, End of Year	\$ 424,409	\$ 1,110,635	\$ 2,394	\$ 1,532,650	\$ 1,355,763	\$ 1,355,763	\$ 176,887

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO OTHER INFORMATION
BUDGETARY REPORTING
JUNE 30, 2015**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$384,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, general government, and debt service functions.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*
(IN THOUSANDS)**

OTHER INFORMATION

	2015 -----
City's proportion of the net pension liability	0.004425%
City's proportionate share of the net pension liability	\$ 175
City's covered-employee payroll	402
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	43.53%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**CITY OF PRESTON
PRESTON, IOWA**

SCHEDULE OF CITY CONTRIBUTIONS

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS
(IN THOUSANDS)**

OTHER INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contributions	\$ 36	\$ 37	\$ 34	\$ 33	\$ 29	\$ 27	\$ 27	\$ 25	\$ 23	\$ 21
Contributions in relation to the statutorily required contribution	(36)	(37)	(34)	(33)	(29)	(27)	(27)	(25)	(23)	(21)
Contribution deficiency (excess)	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
City's covered-employee payroll	\$ 396	\$ 402	\$ 377	\$ 390	\$ 376	\$ 371	\$ 394	\$ 379	\$ 355	\$ 332
Contributions as a percentage of covered employee payroll	9.09%	9.20%	9.02%	8.46%	7.71%	7.28%	6.85%	6.60%	6.48%	6.33%

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

**SUPPLEMENTARY
INFORMATION**

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Special Revenue			
	Library Foundation	Special Assessments	Debt Service	Total
Receipts:				
Use of money and property	\$ 2,810	\$ ----	\$ ---	\$ 2,810
Special assessments	---	129	---	129
Miscellaneous	188	---	---	188
	-----	-----	-----	-----
Total Receipts	\$ 2,998	\$ 129	\$ ---	\$ 3,127
	-----	-----	-----	-----
Disbursements:				
Operating:				
Culture and recreation	\$ 1,213	\$ ---	\$ ---	\$ 1,213
Debt service	---	---	78,662	78,662
	-----	-----	-----	-----
Total Disbursements	\$ 1,213	\$ ---	\$ 78,662	\$ 79,875
	-----	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 1,785	\$ 129	\$ (78,662)	\$ (76,748)
Other Financing Sources:				
Transfers in	---	---	58,509	58,509
	-----	-----	-----	-----
Change in Cash Balances	\$ 1,785	\$ 129	\$ (20,153)	\$ (18,239)
Cash Balances Beginning of Year	69,467	(129)	(144,142)	(74,804)
	-----	-----	-----	-----
Cash Balances End of Year	\$ 71,252	\$ ---	\$ (164,295)	\$ (93,043)
	=====	=====	=====	=====
Cash Basis Fund Balances:				
Restricted for Library	\$ 71,252	\$ ---	\$ ---	\$ 71,252
Unassigned	---	---	(164,295)	(164,295)
	-----	-----	-----	-----
Total Cash Basis Fund Balances	\$ 71,252	\$ ---	\$ (164,295)	\$ (93,043)
	=====	=====	=====	=====

See accompanying independent auditor's report.

SCHEDULE "2"

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES – NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Garbage	Customer Deposits	Total
	-----	-----	-----
Operating Receipts:			
Charges for services	\$ 140,435	\$ 7,581	\$ 148,016
	-----	-----	-----
Operating Disbursements:			
Salaries and wages	\$ 35,659	\$ ---	\$ 35,659
Employee benefits and costs	30,020	---	30,020
Repairs, maintenance and utilities	10,389	---	10,389
Contractual services	47,432	7,039	54,471
Commodities	3,051	---	3,051
Capital outlay	5,343	---	5,343
	-----	-----	-----
Total Operating Disbursements	\$ 131,894	\$ 7,039	\$ 138,933
	-----	-----	-----
Excess of Operating Receipts Over Operating Disbursements	\$ 8,541	\$ 542	\$ 9,083
	-----	-----	-----
Non-Operating Receipts:			
Interest on investments	\$ ---	\$ 19	\$ 19
Miscellaneous	3,304	---	3,304
	-----	-----	-----
Net Non-Operating Receipts	\$ 3,304	\$ 19	\$ 3,323
	-----	-----	-----
Change in Cash Balances	\$ 11,845	\$ 561	\$ 12,406
	-----	-----	-----
Cash Balances Beginning of Year	(26,083)	19,980	(6,103)
	-----	-----	-----
Cash Balances End of Year	\$ (14,238)	\$ 20,541	\$ 6,303
	=====	=====	=====
Cash Basis Fund Balances:			
Unrestricted	\$ (14,238)	\$ 20,541	\$ 6,303
	=====	=====	=====

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES – INTERNAL SERVICE FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Shed Reserve	Insurance Reserve	Total
	-----	-----	-----
Operating Receipts:			
Miscellaneous	\$ 112	\$ ---	\$ 112
	-----	-----	-----
Operating Disbursements:			
Repairs, maintenance and utilities	\$ 2,480	\$ ---	\$ 2,480
Commodities	2,324	---	2,324
	-----	-----	-----
Total Operating Disbursements	\$ 4,804	\$ ---	\$ 4,804
	-----	-----	-----
Net Change in Cash Balances	\$ (4,692)	\$ ---	\$ (4,692)
	-----	-----	-----
Cash Balances Beginning of Year	1,676	5,522	7,198
	-----	-----	-----
Cash Balances End of Year	\$ (3,016)	\$ 5,522	\$ 2,506
	=====	=====	=====
Cash Basis Fund Balances:			
Unrestricted (deficit)	\$ (3,016)	\$ 5,522	\$ 2,506
	=====	=====	=====

See accompanying independent auditor's report.

SCHEDULE "4"

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Notes:									
Water	October 14, 2010	4.00%	\$ 375,000	\$ 239,000	\$ ---	\$ 36,000	\$ 203,000	\$ 9,607	\$ ---
Electric	June 13, 2012	3.15%	600,000	520,000	---	40,000	480,000	16,104	---
				\$ 759,000	\$ ---	\$ 76,000	\$ 683,000	\$ 25,711	\$ ---
General Obligation Notes:									
Fire truck	August 26, 2008	4.30%	109,000	\$ 57,793	\$ ---	\$ 57,793	\$ ---	\$ 715	\$ ---
Street lighting	April 8, 2013	0.00%	45,317	40,030	---	4,154	35,876	---	---
Fire truck/refunding	October 7, 2014	2.75%	168,000	---	168,000	13,000	155,000	3,000	---
Total				\$ 97,823	\$ 168,000	\$ 74,947	\$ 190,876	\$ 3,715	\$ ---
Other Obligation:									
Sewer Fund - Interfund Loan	August 27, 2007	3.90-4.30%	\$ 210,000	\$ 75,000	\$ ---	\$ 25,000	\$ 50,000	\$ 3,188	\$ ---

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

BOND AND NOTE MATURITIES
JUNE 30, 2015

Revenue Notes

Year Ending June 30,	Water		Electric		Total
	Issued October 14, 2010		Issued June 13, 2012		
	Interest Rates	Amount	Interest Rates	Amount	
2016	4.00%	\$ 37,000	3.15%	\$ 40,000	\$ 77,000
2017	4.00%	39,000	3.15%	40,000	79,000
2018	4.00%	41,000	3.15%	40,000	81,000
2019	4.00%	42,000	3.15%	40,000	82,000
2020	4.00%	44,000	3.15%	40,000	84,000
2021		---	3.15%	40,000	40,000
2022		---	3.15%	40,000	40,000
2023		---	3.15%	40,000	40,000
2024		---	3.15%	40,000	40,000
2025		---	3.15%	40,000	40,000
2026		---	3.15%	40,000	40,000
2027		---	3.15%	40,000	40,000
Total		\$ 203,000		\$ 480,000	\$ 683,000

General Obligation Notes

Year Ending June 30	Street Lighting		Fire Truck/Refunding		Total
	Issued April 8, 2013		Issued October 7, 2014		
	Interest Rates	Amount	Interest Rates	Amount	
2016	0.00%	\$ 4,532	2.75%	\$ 13,000	\$ 17,532
2017	0.00%	4,532	2.75%	13,500	18,032
2018	0.00%	4,532	2.75%	13,500	18,032
2019	0.00%	4,532	2.75%	14,000	18,532
2020	0.00%	4,532	2.75%	14,000	18,532
2021	0.00%	4,532	2.75%	14,000	18,532
2022	0.00%	4,532	2.75%	14,000	18,532
2023	0.00%	4,152	2.75%	15,000	19,152
2024		---	2.75%	7,000	7,000
2025		---	2.75%	7,000	7,000
2026		---	2.75%	7,000	7,000
2027		---	2.75%	7,000	7,000
2028		---	2.75%	8,000	8,000
2029		---	2.75%	8,000	8,000
Total		\$ 35,876		\$ 155,000	\$ 190,876

Other Obligation

Sewer	
Issued August 27, 2007	
Interest Rates	Amount
4.25%	\$ 25,000
4.30%	25,000

	\$ 50,000

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Receipts:										
Property tax	\$ 254,925	\$ 249,217	\$ 227,268	\$ 216,937	\$ 209,685	\$ 206,282	\$ 174,342	\$ 147,711	\$ 146,562	\$ 136,435
Other city tax	88,634	84,594	82,236	82,026	67,223	66,672	66,509	65,914	65,542	56,045
Licenses and permits	2,990	2,310	2,775	3,165	8,400	7,022	7,069	7,007	6,060	10,708
Use of money and property	9,318	22,562	5,187	5,194	4,378	3,593	3,228	5,736	13,943	20,762
Intergovernmental	170,283	164,032	163,185	150,297	265,516	313,593	131,656	130,550	122,601	121,067
Charges for service	38,241	37,025	34,592	34,223	34,101	35,057	32,760	32,708	37,267	26,154
Special assessments	241	254	271	283	432	573	436	809	23,799	421
Miscellaneous	19,456	17,388	31,859	34,075	16,818	14,650	20,552	43,847	30,008	35,102
	<u>\$ 584,088</u>	<u>\$ 577,382</u>	<u>\$ 547,373</u>	<u>\$ 526,200</u>	<u>\$ 606,553</u>	<u>\$ 647,442</u>	<u>\$ 436,552</u>	<u>\$ 434,282</u>	<u>\$ 445,782</u>	<u>\$ 406,694</u>
Disbursements:										
Operating:										
Public safety	\$ 401,165	\$ 216,780	\$ 222,535	\$ 212,913	\$ 256,868	\$ 288,346	\$ 337,198	\$ 226,036	\$ 185,318	\$ 171,555
Public works	191,851	120,565	120,941	119,556	129,810	84,611	118,477	190,783	76,383	93,386
Health and social services	---	---	---	---	---	---	---	---	---	368
Culture and recreation	107,630	99,130	100,641	91,577	142,885	170,594	96,346	106,851	145,582	97,272
Community and economic development	16,235	12,399	9,316	7,417	15,183	14,002	6,926	7,579	14,639	10,816
General government	80,583	82,822	76,594	65,583	61,336	57,877	59,195	58,306	54,478	51,821
Debt service	78,662	29,369	21,633	21,303	21,710	22,130	22,554	13,136	13,567	14,003
Capital projects	---	---	---	---	---	---	---	---	457,744	---
Total	<u>\$ 876,126</u>	<u>\$ 561,065</u>	<u>\$ 551,660</u>	<u>\$ 518,349</u>	<u>\$ 627,792</u>	<u>\$ 637,560</u>	<u>\$ 640,696</u>	<u>\$ 602,691</u>	<u>\$ 947,711</u>	<u>\$ 439,221</u>

Disbursements:

Operating:

Public safety

Public works

Health and social services

Culture and recreation

Community and economic

development

General government

Debt service

Capital projects

Total

See accompanying independent auditor's report.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 10, 2016. Our report expressed unmodified opinions on the financial statements of the various opinion units of the primary government which were prepared on the basis of cash receipts and disbursements and an adverse opinion on the discretely presented component unit due to the omission of the financial data for the City's legally separate component unit. Our report included a disclaimer of opinion on the other information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Preston's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Preston's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Preston's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-15 and I-B-15, to be material weaknesses. Items I-A-15 and I-B-15 were noted in the prior year audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Preston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Preston's Responses to Findings

The City of Preston's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Preston's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Preston during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.

Dubuque, Iowa

February 10, 2016

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-15 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual at the City has custody of receipts and performs all recordkeeping and reconciling functions for the accounts. The result is that intentional or unintentional errors or unauthorized transactions could occur and not be detected in a timely manner.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. A council member should receive the bank statement each month and review its contents. This review should be documented by the council member initialing the statement.

Response - The City Council feels they have segregated duties to the extent possible with the existing personnel.

Conclusion - Response accepted.

I-B-15 Adjusting Journal Entries - Several adjusting journal entries were proposed to management to represent a fair presentation of the financial statements. Significant adjustments were made to correct the fund balance of several funds as well as reclassify receipts and disbursements. Misstatements in the financial statements could impair management and the City Council's ability to make informed decisions.

Recommendation - We recommend that the City implement procedures to reasonably assure that account balances are fairly stated.

Response - Near the end of the fiscal year, the City converted to new accounting software. As a result of the conversion, some balances required correction during the audit. We will continue to assess the new software and consider implementing procedures to ensure account balances are fairly stated.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part II: Other Findings Related to Statutory Reporting:

- II-A-15 Certified Budget - Disbursements during the year ended June 30, 2015, exceeded the amounts budgeted in the public safety, public works, community and economic development, general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-15 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-15 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-15 Business Transactions - No business transactions between the City and City officials or employees were noted.
- II-E-15 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-15 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

Although minutes of the City Council proceedings were published, the June 2015 minutes did not included the total disbursements from each fund or the purpose of the claims allowed as required by Chapter 372.13(6) of the Code of Iowa.

The City Council went into closed session on July 14, 2014, July 30, 2014, August 19, 2014, and December 16, 2014. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part II: Other Findings Related to Statutory Reporting: (Continued)

Recommendation – The City should publish the total disbursements from each fund and include the purpose of the claim, as required. The City should also comply with Chapter 21 of the Code of Iowa.

Response - The City converted to new accounting software near the end of the fiscal year. As a result, some reports were not formatted to allow for all of the information required by the Code of Iowa. These reports have been corrected, and we will comply with the Code requirements and publish all required information as well as document all information required for closed sessions.

Conclusion - Response accepted.

- II-G-15 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-15 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.
- II-I-15 Financial Condition - The Debt Service Fund had a deficit balance of \$164,295; the Enterprise, Garbage Fund had a deficit balance of \$14,238; and the Internal Service, Shed Reserve Fund had a deficit balance of \$3,016 at June 30, 2015. The Debt Service Fund and the Enterprise Garbage Fund had deficit balances in the previous fiscal year. The deficit balance in the debt service fund continues to increase due to insufficient amounts being transferred for the principal and interest payments due on the City's debt.

Recommendation - The City should continue to investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position. This could include other revenue sources, as well as reviewing the budget process for cost reductions. The City should also transfer funds as needed to the debt service fund to provide monies for the payment of general obligation debt.

Response - We will investigate ways to eliminate these deficits.

Conclusion - Response accepted.